

Message Text

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PAGE 01 COPENH 02592 061643Z

71

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 3054

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

UNCLAS COPENHAGEN 2592

EO 11652: N/A

TAGS: EEC, EFIN, DA

SUBJ: POSITION OF DANISH KRONE IN SNAKE COOPERATION

1. DURING THE LAST WEEK'S LIMITED MONETARY UNREST, THE DANISH KRONE WAS UNABLE TO KEEP PACE WITH THE RISING DEUTSCHMARK. INTERVENTION WAS REQUIRED TO MAINTAIN SNAKE POSITON BUT ONLY AT A MODEST LEVEL ACCORDING TO CENTRAL BANK SOURCES. BY THE END OF THE WEEK, THE KRONE WAS BACK AT A LEVEL CLOSE TO THE OTHER SNAKE CURRENCIES, STILL SOME TWO PERCENT BELOW THE DEUTSCHMARK.

2. OVER THE LAST MONTH, THE DANISH AND OTHER SCANDINAVIAN CURRENCIES HAVE BEEN IN A LOSING POSITION IN THE SNAKE. IN RELATION TO DOLLARS, THEY LOST MODERATELY WHILE DEUTSCHMARK, GUILDERS, AND BELGIAN FRANCS

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PAGE 02 COPENH 02592 061643Z

GAINED. THIS WIDENED THE SNAKE TO ITS FULL MARGIN.

3. THE RELATIVE WEAKNESS OF THE DANISH KRONE IS UNDER-
STANDABLE IN VIEW OF THE CONTINUING LARGE TRADE AND PAYMENTS
DEFICITS. THE \$1,500 MILLION TRADE DEFICIT FOR FIRST HALF 1976
WAS THREE TIMES AS LARGE AS LAST YEAR. INTENSIVE GOVERNMENT
BORROWING ABROAD HAS PRESERVED FOREIGN EXCHANGE RESERVES AT AN
UNREDUCED LEVEL, HOWEVER. JUST THIS WEEK THE GOVERNMENT
BORROWED DM850 MILLION (ABOUT \$335 MILLION). IT IS ANTICIPATED
THAT TOTAL PUBLIC BORROWING IN 1976 WILL EXCEED THE \$1,500 -
1,700 MILLION CURRENT PAYMENTS DEFICIT FORECAST FOR THE YEAR.

4. THE DANISH CENTRAL BANK HAS DENOUNCED SPECULATION THAT THE
DANISH KRONE IS IN TROUBLE. THE BANK MAINTAINS THAT RECENT
PRESSURES AGAINST THE KRONE WERE LIMITED AND THAT THE SITUATION
IN NO WAY RESEMBLES THAT OF LAST MARCH. THE BANK ALSO POINTS
OUT THAT THE INTERIM \$600 MILLION GERMAN CREDIT DRAWN IN MARCH
TO PROTECT THE KRONE HAS BEEN FULLY REPAID AND THAT THE RESERVE
POSITION AND AVAILABLE CREDIT FACILITIES OFFER FULL PROTECTION.
THE CENTRAL BANK'S CALMING COMMENT WAS MOTIVATED BY ISOLATED
COMMERCIAL BANK SPECULATION THAT A RE-ALIGNMENT OF SNAKE
CURRENCIES WOULD TAKE PLACE LATER THIS YEAR. THAT SPECULATION
WAS ENOUGH TO TRIGGER PRESSURES ON FORWARD MARKETS AND AFFECT
THE DOMESTIC CAPITAL MARKET.
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